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The War and the International Oil Market. Thus far, escalating attacks on Persian Gulf shipping have had little impact either on exports from the region or on oil prices. The losses suffered have been insurable and the increased costs have been absorbed in the soft oil market.

Oil exports from the Gulf are vulnerable to an escalation of hostilities. Apart from trying to block the Straits of Hormuz, Iran could launch air, commando, or terrorist attacks against critical oil facilities in the Southern Gulf. Destruction of Saudi Arabia's two main oil export terminals and of the Abqaiq oil processing facility would effectively shut off Saudi production for several months.

Only attacks which succeeded in curtailing Saudi oil exports for substantial periods of time would cause a shortfall in world oil supplies and a large rise in oil prices. Loss of Iranian and Kuwaiti oil, for example, could be made up from excess capacity elsewhere, notably in Saudi Arabia, and the Saudis as the swing producers would hold prices down. If they were unable to play this role, however, prices would rise sharply. There would be adverse effects on the free world economies from which the US could not be insulated, despite its minor dependence on Persian Gulf oil (3 percent of consumption).

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Economic growth would slow, inflation would accelerate, and the already severe problems of oil importing debtor countries would worsen. These adverse effects could be moderated by releasing government stocks. The chances are that even the most severe oil supply interruptions could be greatly eased within six months or so, as a result of which prices would fall toward their earlier level, unlike the 1973 and 1979-80 price rises, which proved lasting.